

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 USIA-15

PRS-01 DRC-01 /169 W

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R 102305Z APR 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 6760

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

MEMBASSY MANAGUA 2260

AMEMBASSY PANAMA

MEMBASSY SAN SALVADOR 2142

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SAN JOSE 1424

E.O. 11652: GDS

TAGS: ENRG, CS

SUBJECT: TRANSCONTINENTAL OIL PIPELINE CONCESSION

REF: SAN JOSE 4496

1. SUMMARY: OFFICIAL GAZETTE OF APR 6, CIRCULATED  
APRIL 10, PUBLISHED TEXT OF THE GOCR'S CONCESSION TO  
COMPANIA INTEROCEANICA DE TRANSPORTES DE LIQUIDO S.A. FOR  
CONSTRUCTION AND OPERATION OF A TRANSISTHMIAN PIPELINE. (SEE  
REFTEL.) CONCESSION FOLLOWED BY LESS THAN TWO WEEKS  
PROMULGATION, ON MARCH 28, OF A SPECIAL UMBRELLA LAW  
ENTITLED "LAW FOR THE TEMPORARY IMPORTATION OF PETROLEUM"  
DESIGNED TO GIVE THE GOCR AUTHORITY FOR GRANTING SUCH CONCESSION.  
PRESS REPORTS SAY THAT THE LINE WILL BE CAPABLE OF TRANSPORTING  
80 MILLION TONS OF CRUDE PETROLEUM ANNUALLY AND THAT IT WILL  
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BE CONSTRUCTED AT A COST OF \$400 MILLION. LOW KEY INQUIRIES

AT THE MINISTRY OF ECONOMY, INDUSTRY, AND COMMERCE REVEALED LITTLE INFORMATION OF THE PROJECT AT THE STAFF LEVEL ALTHOUGH ONE OFFICIAL CONFIDED THAT THE WHOLE THING HAD BEEN "TOP SECRET" AND THAT PRESIDENT FIGUERES' PERSONAL FINANCIAL INTERESTS WERE INVOLVED.

A. ACTION REQUESTED: FOR DEPARTMENT: WOULD APPRECIATE DEPARTMENT'S LATEST ASSESSMENT OF THE FEASIBILITY OF A TRANSISTHMIAN PIPELINE THROUGH COSTA RICA.

B. ACTION REQUESTED: FOR CARACAS: PRESS QUOTES GOCR OFFICIAL THAT PIPELINE WILL NOT "INTERFERE WITH PROPOSED REFINERY TO BE BUILT WITH VENEZUELAN PARTICIPATION. WOULD APPRECIATE ANY FEEDBACK YOU CAN FURNISH.

END SUMMARY.

2. THE COSTA RICAN OFFICIAL GAZETTE OF APRIL 6, 1974, PUBLISHED THE TEXT OF THE CONCESSION GRANTED COMPANIA INTER-OCEANICA DE TRANSPORTES DE LIQUIDO S.A. FOR THE CONSTRUCTION AND OPERATION OF A TRANSISTHMIAN PIPELINE. (SEE REFTTEL FOR PRELIMINARY INFORMATION.) ACCORDING TO PRESS REPORTS THE PIPELINE WILL BE CAPABLE OF TRANSPORTING 80 MILLION TONS OF CRUDE OIL ANNUALLY AND IT WILL BE CONSTRUCTED AT A TOTAL COST OF \$400 MILLION.

3. MAJOR POINTS OF THE CONCESSION ARE AS FOLLOWS:

A. THE COMPANY IS GIVEN AUTHORIZATION TO BUILD, MAINTAIN, OPERATE, AND EXPLOIT "A COMPLETELY INTEGRATED PETROLEUM SYSTEM, INCLUDING A SYSTEM OF TRANSPORT OF HYDROCARBONS CAPABLE OF RECEIVING, STORING, AND TRANSPORTING IN AN AREA WHICH WILL BE DECLARED "PUERTO LIBRE ZONE FRANCA".

B. THE PIPELINE WILL TRAVERSE COSTA RICA FROM A POINT BETWEEN LIMON AND THE PANAMANIAN BORDER TO THE GULFO DULCE ON THE PACIFIC (GULF FORMED BY OSA PENINSULA).

C. THE FREE ZONE WILL ALSO INCLUDE THE TERRITORIAL SEA AS DEFINED IN THE LAWS OF COSTA RICA AS NEEDED FOR CONFIDENTIAL

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CONNECTIONS.

D. THE GOCR WILL RECEIVE ROYALTIES AS FOLLOWS:

2. PERCENT FOR FIRST 5 YEARS; 6 PERCENT SUCCEEDING 4 YEARS; 9 PERCENT THROUGH THE 14TH YEAR; AND 12 PERCENT BEYOND.

3. WITHIN 180 DAYS OF PUBLICATION OF THIS RESOLUTION, INTEROCEANICA MUST PUT UP A PERFORMANCE BOND OF \$4 MILLION.

\*. THE CONCESSION IS FOR 30 YEARS WITH AN ADDITIONAL 10 YEARS POSSIBLE.

4. THIS CONCESSION WAS GRANTED UNDER A LAW WHICH WAS QUIETLY MOVED THROUGH THE ASSEMBLY DURING MARCH AND SIGNED BY PRESIDENT FIGUERES ON MARCH 28. THE LAW ENTITLED "LAW OF THE TEMPORARY IMPORTATION OF PETROLEUM" ESTABLISHES ".... NORMS FOR ACTIVITIES CONCERNING TEMPORARY IMPORTATION OF PETROLEUM FOR THE PURPOSE OF: (A) STORAGE AND TRANSPORTATION ACROSS THE NATIONAL TERRITORY BY MEANS OF OIL PIPELINES AND ASSOCIATED INSTALLATIONS AND(B) STORAGE AND INDUSTRIALIZATION FOR RE-EXPORTATION". THUS, THE LAW WOULD SEEM TO COVER THE PIPELINE IDEA OR A REFINERY FOR RE-EXPORTATION SUCH AS THE PROPOSED 200,000 BARREL CAPACITY REFINERY THEAT PRESIDENT-ELECT ODUBER DISCUSSED WITH THE GOV. THE LAW IS QUITE GENERAL IN THAT IT STATES THAT SUCH ACTIVITIES MAY BE UNDERTAKEN BY THE STATE OR BY PRIVATE INDIVIDUALS OR BY VARIOUS COMBINATIONS INCLUDING PARTICIPATING "OF THE COSTA RICAN STATE AND/OR OTHER STATES". IT ALSO PROVIDES FOR 99 PERCENT DUTY FORGIVENESS ON CAPITAL IMPORTS AND INCOME TAX EXEMPTION. PETROLEUM PRODUCTS IMPORTED FOR RE-EXPORT ARE EXEMPT FROM ALL FISCAL CHARGES.

5. COMMENT: A TRANSISTHMIAN PIPELINE THROUGH COSTA RICA HAS BEEN OF INTEREST TO A NUMBER OF COMPANIES AND PROMOTERS, BOTH LEGITIMATE AND QUESTIONABLE, FOR THE LAST SEVERAL YEARS. ALL OF THE SCHEMES ENVISAGED SOME VARIATION OF SHIPPING ALASKAN OIL TO THE ATLANTIC COAST ALONG WITH CRUDE FROM ECUADOR AS WELL. ONE SCHEME ENVISAGED A REVERSE THROUGH-PUT OF COAL SLURRY FOR JAPAN. THE LOCATION OF THIS PROJECT WOULD REQUIRE RAISING THE PIPELINE OVER SOME OF THE MORE MOUNTAINOUS PARTS OF COSTA RICA. THIS PROJECT HAS  
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BEEN HANDLED WITH CONSIDERABLY SECRECY AND APPARENTLY WITHOUT PARTICIPATION AT THE STAFF LEVEL OF THE MINISTRY OF ECONOMY, INDUSTRY AND COMMERCE. THERE ARE RUMORS OF PERSONAL INVOLVEMENT OF PRESIDENT FIGUERES, MINISTER KOGAN AND OF COURSE ROBERT VESCO. THE MARCH 28 LAW IS ONE OF A SERIES OF MEASURES AFFECTING PETROLEUM INDUSTRY WHICH HAVE RECEIVED THE ATTENTION OF THE INTERREGNUM ASSEMBLY. AN EVALUATION OF THE SIGNIFICANCE OF THIS MASS OF LEGISLATION WILL REQUIRE CONSIDERABLE FURTHER ANALYSIS.  
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